

A wide-angle photograph of a snowy mountain range under a cloudy sky. The mountains are covered in snow with some dark rock faces visible. In the foreground, there is a body of water with small waves. The sky is filled with soft, white clouds.

Regulatory requirements for climate alignment disclosure

Jan 2020

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This briefing provides WWF views on what regulators should include in climate alignment disclosure regulation for financial institutions. Its aim is to feed into a growing number of legislative processes on the EU and national level that require financial institutions to disclose the degree of their alignment with the objectives of the Paris Agreement, like for example the Article 4.2(d) of the EU Disclosure Regulation.

WWF briefing on minimum regulatory requirements for climate alignment disclosure and metrics for financial institutions

EU Disclosure Regulation:

- Adopted in 2019, and will come into force in March 2021
- Article 4.2(d): “Financial market participants shall publish and maintain on their websites (...) where relevant, the degree of their alignment with the objectives of the Paris Agreement.”

WWF has formulated 10 recommendations that aim for the inclusion of forward-looking metrics in technical standards that are currently under development, supported by concrete examples of tools and frameworks

Recommendations



Recommendation #1

- WWF recommends policy makers to include requirements in climate alignment disclosure regulations across three levels: (1) portfolio metrics and targets, (2) dynamic sector metrics and targets, and (3) strategy and activity based metrics and targets. Financial institutions should be required to disclose against all three levels, but given some degree of flexibility to decide for each level which exact metric best fits their activities. WWF argues that all the included metrics and targets must be forward-looking, and be reviewed on a regular basis (maximum five year) to take in account evolving climate science and methodology development.

Recommendation #2

- WWF recommends regulators not to include carbon footprinting as the sole metric to measure and disclose climate alignment. Carbon footprinting can be used as a basis for forward-looking portfolio-wide target setting across asset classes.

Recommendations



Portfolio targets and metrics

WWF recommends regulators to include three portfolio level metrics in climate alignment disclosure regulation:

- Temperature alignment scoring
- Absolute CO₂e-emission reduction targets
- EU taxonomy based targets

Financial institutions should be required to disclose information for at least one of the three metrics.

(more detailed recommendations for the three metrics in the paper)

Sector targets and metrics

WWF recommends regulators to:

- Include a list of highly material sectors in climate alignment disclosure regulation, against which disclosure by financial institutions is mandatory;
- Include a broader list of material sector against which disclosure by financial institutions is voluntary;
- Include two sector level metrics in climate alignment disclosure regulation: product/production targets and economic activity based metrics;
- Regularly review the lists of highly material and material sectors in light of changes in the real economy

(more detailed recommendations for the two metrics in the paper)

Activity and strategy-based metrics and targets

WWF recommends regulators to include the following activity and strategy based metrics in climate alignment disclosure regulation:

- **Strategy.** The disclosure of the strategy and transition plan the financial institutions will employ to bring its portfolio and products in line with the goals of the Paris agreement;
- **Engagement.** The disclosure by the financial institutions of engagement targets, the number and sectoral breakdown of engagement conducted with regard to climate change over the last 12 months, a description of how sectors/companies for engagement were identified, the climate requests towards sectors/companies, a description of the engagement escalation strategy;
- **Investment policies.** A description of the overall climate policies, sectoral policies for highly material sectors (e.g. fossil fuel policies with phase-out timelines aligned with no/low overshoot 1.5°C scenarios), green investment policies and targets (e.g. target to increase share of renewable energy in portfolio per every five years).

Initiatives, tools and frameworks



The paper highlights the growing numbers of initiatives, tools and frameworks that financial institutions can use and build upon for their climate alignment disclosure:

- Science-based target initiative for financial institutions (SBT-FI)
- **SBT-FI temperature scoring tool**
- Investor-led target setting frameworks: UN-convened net-zero asset owner alliance and IIGCC Paris aligned investment initiative
- **Paris Agreement Capital Transition Assessment (PACTA)**
- Engagement target setting methodologies
- WWF guides on sectoral investment policies

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